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**RISK MANAGEMENT:  
THE WAY FORWARD**

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# RISK MANAGEMENT

The Way Forward

## Risk Management The Way Forward

- Definition of Risk
- The Emergence of Risk Management
- The Need of Risk Management
- Risk Management Process
- Conclusion

## Definition of Risk

- A dictionary definition of risk ...  
*'a possible hazard or danger, a probability of loss or chance of bad consequences or exposure.'*
- In layman terms we are exposed to all sorts of risk daily, e.g. *risk of catching cold, risk of driving, walking on the pavement etc.*
- To prevent these risks we take precaution. In corporate terms these precautions are known as Risk Management.

## Definition of Risk Management

- Definition of Risk Management...  
*'Risk Management is defined as a structured approach to dealing with risk by anticipating possible losses and financial impact of the losses if the risk occurs.'*
- Example of Risk Management in an organisation:
  - Annual Budget Review
  - Key Performance Indicator
  - Cost Management Review
  - Benchmarking
  - Investment Review etc.

## Definition of Risk Management Con't...

- Risk Management is practiced by most organisation.
- Risks can be inherent and controllable
- In the current state of economic climate a well structured Risk Management Program needed to ensure these risks can be mitigated.

## Emergence of Risk Management

- The collapse of Multi billion dollar company e.g.: Barings, Enron, WorldCom etc.
- Board of Directors to play an active role in the organisation affair.
- Board of Directors lack of knowledge on company's affairs.
- To protect the Interest of shareholders

## Emergence of Risk Management

### *Collapse of Multi Billion Dollar Companies*

- Companies like Barings, HIH Casualty, Enron, WorldCom collapsed.
- **Lack of internal control** within the organisation one of the cause of collapse.
- Barings – **Lack of segregation of duties** in the front and back office – *As reported by Internal and External Auditors*
- Enron – Directors **fail to demand for information** – *A study by University of Texas*

## Emergence of Risk Management

### *Directors To Play an Active Role*

- Directors need to be actively involved in company's affairs.
- Directors need to be informed on activities of their company.
- Directors can be sued by Shareholders, if they failed to act in their capacity as directors.
- Ignorance is not an excuse.

## Emergence of Risk Management

*Directors lack of knowledge on company's affairs*

- Risk Management helps to trigger directors to be aware of any risk the company is facing.
- Directors need to acquire all information for the company.
- All information pertaining to the organisation must be disclosed to the directors as they hold the ultimate responsibilities on the company.

## Emergence of Risk Management

*To protect shareholders / stakeholders interests*

- Directors owes their fiduciary duties to the Shareholders.
- Shareholders relying on the directors to inform them on the company's affair.
- Directors' responsibilities not limited to shareholders alone, but also to all parties such as creditors, suppliers, customer etc.

## The Need of Risk Management

- Effective Board of Directors
- Management Accountability
- Self Risk Assessment ✓
- Paradigm Shift – Receptive to Change
- Corporate Governance

## The Need of Risk Management

### *Effective Board of Directors*

- Risk Management program will identify and prioritise risks of the company.
- Board of Directors are therefore informed of these risks and measures taken and actions to be taken by the Management to control or mitigate its impact.
- Creating awareness of Board of Directors.
- Board may be critical on such issues and ensure that the implementation being carried as proposed.

## The Need of Risk Management *Management Accountability*

- Risk Management Program involves all levels of staff.
- Accountability will become a concern to ensure necessary action taken to minimise risk.
- Accountability not limited to the management only but also all level of staff.

## The Need of Risk Management *Self Risk Assessment*

- Risk Management introduces a new concept of *Internal Auditing*, that is self assessment; concept of pre-emptive action.
- Every department or division required to identify and assess its own department and advise the management of its respective internal risks.
- Therefore help to encourage employees to address problems and solutions to the management.



## The Need of Risk Management

### *Hijrah - Paradigm Shift*

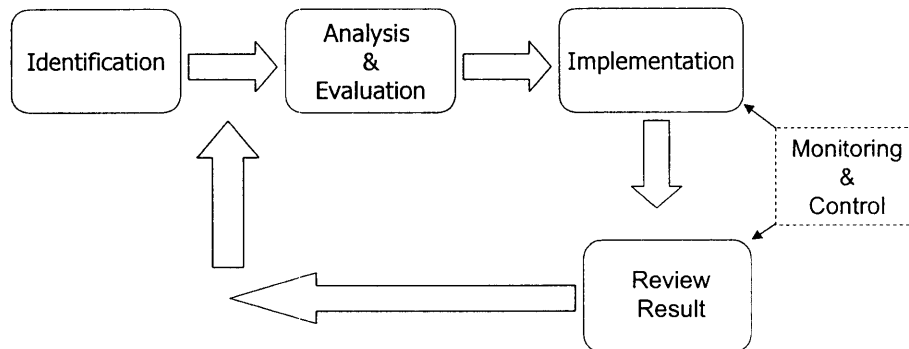
- Paradigm – Greek word means a model, style, perception.
- Paradigm Shift – change of style.
- Current fast moving world requires employees, management and directors to be receptive to change.
- Risk Management can be said a new style of control and monitoring of an organisation.
- It requires regular control and monitoring, if necessary regular changes to be made in an organisation.

## The Need of Risk Management

### *Corporate Governance*

- Public Listed Companies are required to comply with Malaysian Code of Corporate Governance issued by Malaysian Institute of Corporate Governance
- Kuala Lumpur Stock Exchange Listing Requirements Para 15.27(b) requires that Board of Directors Public Listed Companies to include in its annual report the state of internal control of the organisation as a group.
- Bank Negara Malaysia Guidelines JPI/GPI – 25 requires that all Insurance and Takaful operators to set a Framework for Corporate Governance.

## Risk Management Process



## Risk Management Process *Identification*

- Risk can be identified if a process does not meet its objectives.

For example; A delivery service standard requires all goods to be delivered within 24 hours. If the standard cannot be met, there are risks that affect the process. These risks need to be identified.

- Once identified risk can be mitigated.

## Risk Management Process *Analysis & Evaluation*

- Analysis and evaluation of the existing process need to be conducted.
- To be undertaken by relevant personnel.
- A Senior Management or Risk Manager may become the facilitator for the group.
- Recommendation of the revised process or control will be put forward to Management for approval and implementation.

## Risk Management Process *Implementation*

- The revised process will then be implemented according to the proposal to the management.
- Monitoring and control of the implementation process is crucial to ensure the process to meet its objective.
- Implementation process involves all parties in an organisation.

## INTERNATIONALISATION STRATEGY

### INTERNATIONALISATION

#### FINANCE

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#### CUSTOMERS

O

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M

I

#### PROCESSES

O

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#### SUSTENANCE

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## FINANCIAL IMPLICATIONS

- 1) COLLATE FINANCIAL NEEDS OF VARIOUS CORPORATE STRATEGIES
- 2) RECORD TARGET INCREASES OR REDUCTIONS
- 3) ASIST USING NETWORK
- 4) FOLLOW - UP, MONITOR AND CONTINUOUSLY UPGRADE

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### **GUIDELINE (A) MAKING IMPLEMENTATION EFFECTIVE PERFORMANCE MEASURE REFLECTS STRATEGY**

- **CAUSE - AND - EFFECT, RELATIONSHIP WHAT CAUSES THE EFFECTS**
- **PERFORMANCE DRIVERS - (LAG INDICATORS OR OUTCOME AHEAD INDICATOR, MEASURES) e.g. ROI A LEAD INDICATOR, THE LAG. INDICATORS e.g. MARKET SHARE , CUSTOMER RETENTION. (NON-FINANCIAL) OUTCOME MEASURES & LEAD INDICATORS SHOW HOW RESULTS ARE TO BE ACHIEVED.**
- **ULTIMATE LINK-FINANCE -(FOR PROFIT ORG) FOR NOT - FOR - PROFIT - ULTIMATE LINK - HIGH LEVEL CUSTOMER OT STAKEHOLDERS.**

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### **GUIDELINE (B) STAYING FOCUSED FOR ORGANISATIONS**

- **OPERATIONALISE STRATEGY**
- **INTEGRATE & LINK ORGANISATIONS**
- **MAKE STRATEGY A EVERYBODY'S / JOB**
- **STRATEGY A CONTINUOUS PROCESS**
- **SENIOR LEVEL INVOLVEMENT FOR CHANGE.**

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## **GUIDELINE (C)**

### **TO BE SUCCESSFUL BSC SHOULD :**

- **DELIVER INFORMATION FOR STRATEGY**
- **EMPHASIZE ON FUNCTIONS e.g. FINANCE, MARKETING etc.**
- **COMPARE COMPANY-WITH COMPETITORS**
- **COMPARE INTERNAL PRESENT TO PAST PERFORMANCE**
- **ADOPT A BROAD PERSPECTIVE FOR HIGHLIGHTING e.g. FINANCE, BUSINESS PROCESS, CUSTOMER / MARKET INTERFACES AND EMPLOYEE MOTIVATION.**
- **INTERGRATE HORIZONTALLY AND VERTICALLY**
- **USE BSC TO DYNAMISE CONTINUOUS PROCESS FOREVALUATION & REDEFINITION OF STRATEGY**
- **INTEGRATION OF Q . THROUGH CONTIOUS PROCESS IN PERSPECTIVE (3) AND (4), COMMON FOR PRIVATE & PUBLIC**

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